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Business

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Productivity questions split economists

By MICHAEL FLAGG
Staff Writer

DURHAM — Martin S. Feldstein, President Reagan's top economic adviser, had just finished a speech on business productivity to a group of economists and business executives last week at Duke University. Then Robert Nathan, a Washington consultant and a Democrat, stood up and asked: "But Marty, when are we going to see some changes?"

The 65 participants in the White House Conference on Productivity agreed that changes in the nation's economy are necessary to buck up industry's anemic productivity rate. But Nathan's challenge highlighted the kind of differences that split some participants along ideological and political lines.

Productivity — output for each hour worked — grew by only 0.8 percent in the United States during most of the 1970s, below the rate of many other industrialized countries.

Although it has improved in the past year, there's still concern that less productive American industries are at a disadvantage in world competition.

Feldstein contended during the conference that only by reducing federal budget deficits can interest rates be lowered, providing cheaper capital for American industry to renovate aging plants and boost output per worker.

But next year's federal budget is tied up in negotiations between the House and Senate, each of which has proposed differing versions. Reagan has vowed to veto any compromise budget bill he thinks would compromise his attempt to hold down spending.

Like the budget wrangle, solutions to the productivity problem will involve politics as much as pure economics, some of the Duke participants said.

"Feldstein's talk was basically political," Nathan, chairman of the board of Robert Nathan Associates, said in an interview. "It doesn't fit together any more than the rest of the Reagan program."

Nathan believes the deficit is an impediment to increasing productivity, but says Reagan's program of tax cuts prevents the federal government from reducing its debts. The next cut of 10 percent in income taxes takes place July 1. "But right now we need relief on the deficit instead," Nathan said.

Others offered differing solutions. Donald Fullerton, an assistant professor of economics and public affairs at Princeton University, said tax reform is the single most important change needed to boost productivity.

"We have a diverse and crazy system of tax incentives in this

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country," Fullerton said in an interview. "There are investment tax credits for some investments, and not for others, with no particular rhyme or reason." Taxing certain kinds of investments, Fullerton said, discourages some useful investments that would increase productivity.

Tax policy — either incentives or higher taxes — affects productivity by channeling the flow of capital into plants, equipment and research and development.

Vito Tanzi, director of fiscal affairs for the International Monetary Fund in Washington, favored a combination of both approaches. "Certainly the wide dispersion of tax rates is a problem," he said. "Certain investments aren't taxed, and people are playing games of shifting investments around."

Tanzi would reduce the federal deficit by cutting expenditures if possible, or by increasing taxes as a second choice.

From 1947 to 1967, productivity in the United States averaged increases of 3.1 percent yearly. Then the growth rate declined until last year, when it began improving. The rate hit 8.3 percent in the first three months of 1983.

Nobody knows why productivity growth has slumped since 1967, though dozens of explanations have been advanced by economists. L. William Seidman, dean of the College of Business at Arizona State University and chairman of the national productivity conference, mentioned several in a speech earlier this month.

Among them were a low rate of savings, decreasing capital spending, the "antagonistic relationship between labor and management and government" and "our litigious society, with its tremendous cost in time and money."

Seidman also blamed government regulations, tax laws, federal deficits and reduced spending for research and development.

The White House Conference on Productivity, created by President Reagan, will attempt to find solutions to these problems in three more regional conferences this summer and a national conference in Washington in September. The first conference — the two-day session last week at Duke — focused on the problems of creating more capital for business investment. The next three will look at human resources, the role of government and private sector initiatives.

Said Fullerton: "It's hasn't gone as well as it could. Some of the discussion has been fairly diffuse, but I think we're all learning something. I'd say it was worth the trip."

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